

Message Text

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SUBJ: EUROPEAN COUNCIL, MARCH 25-26, 1977: DISCUSSION OF
ECONOMIC AND MONETRARY SITUATION

1. SUMMARY: DISCUSSION OF THE WORLD ECONOMIC AND MONETARY
SITUATION DURING THE MARCH 25-26 EUROPEAN COUNCIL FOCUSSED
IN PART ON A U.K. PRESIDENCY PAPER ON THE PROBLEMS OF GROWTH,
INFLATION, AND UNEMPLOYMENT, WHICH SERVED AS THE BASIS FOR A
DECLARATION ON THESE SUBJECTS ISSUED AT THE CONCLUSION OF
THE MEETING (TEXT OF THE DECLARATION BEING TRANSMITTED REFTEL).
THE GENERAL LINES OF THIS STUDY, WHICH WERE CONVEYED TO THE
PRESS BY A U.K. SPOKESMAN ARE OUTLINED IN SUBPARAS (A) THROUGH
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(F) BELOW. THE HEADS OF GOVERNMENT ALSO TOOK NOTE OF COMMUNITY
POSITION FOR THE IMF INTERIM COMMITTEE MEETING AGREED
BY THE EC FINANCE MINISTERS. END SUMMARY.

(A) BEGIN SUMMARY OF U.K. PAPER: SHARP PRICE INCREASES
IN THE 1970'S, SPARKED BY FUEL PRICE RISES, LED TO
INFLATION AND LARGE AND CONTINUOUS BALANCE OF PAYMENTS

DEFICITS BETWEEN THE OPEC STATES, ON THE ONE HAND, AND A CONSIDERABLE NUMBER OF INDUSTRIALIZED, ENERGY-IMPORTING COUNTRIES ON THE OTHER HAND. THIS, IN TURN, HAS LED TO AN INCREASING MEASURE OF DEFLATION IN SOME OF THOSE COUNTRIES, TO A LOSS OF BUSINESS CONFIDENCE, AND TO A CONSEQUENT DECLINE IN INVESTMENT AND A CONTINUING HIGH LEVEL OF UNEMPLOYMENT.

(B) THE SITUATION OVER THE PAST YEAR OR SO HAS IMPROVED IN A NUMBER OF RESPECTS; BUT SUSTAINED RECOVERY IS NOT YET, IN HMG'S VIEW, ASSURED. THE EC, ACCORDING TO THIS VIEW, HAS A VITAL ROLE TO PLAY; AND HMG CONSIDERS THAT THE EC MEMBER STATES SHOULD SET IN HAND A PROGRAM OF WORK WHICH WOULD ENSURE THAT THAT ROLE IS PLAYED AS EFFECTIVELY AS POSSIBLE.

(C) HMG IS PARTICULARLY CONCERNED WITH UNEMPLOYMENT. BY THE END OF 1976, THERE WERE 15 MILLION UNEMPLOYED IN THE COUNTRIES OF THE OECD, 5 MILLION OF THEM IN THE EC; AND IN HUMAN AND SOCIAL TERMS, AS WELL AS IN NARROWLY ECONOMIC TERMS, THIS ADDS UP TO A WASTE OF SCARCE RESOURCES, WHICH IS, IN HMG'S VIEW, NOT ACCEPTABLE.

(D) PART OF THE ANSWER MUST LIE IN ACTION, ON A WORLD RATHER THAN ON A EC SCALE, TO HASTEN THE CYCLICAL RECOVERY OF WORLD ECONOMIC ACTIVITY AND GENERATE A HIGHER LEVEL OF WORLD DEMAND. ANOTHER ELEMENT IS THE NEED TO REVIEW AND IMPROVE THE MEANS OF FINANCING INTERNATIONAL PAYMENTS. THESE ARE MATTERS WHICH WILL LIMITED OFFICIAL USE

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BE UNDER DISCUSSION IN THE INTERIM COMMITTEE OF THE IMF TOWARDS THE END OF APRIL.

(E) THERE IS ALSO A CONCURRENT NEED TO EXPLORE WITHIN THE EX SPECIFIC MEASURES DESIGNED TO HAVE AN IMPACT ON PROBLEMS IN THE LABOR MARKET. HMG THINKS THAT IT IS POSSIBLE TO ALLEVIATE CERTAIN KINDS OF UNEMPLOYMENT, PARTICULARLY AMONG YOUNG PEOPLE AND SCHOOL LEAVERS, BY SELECTED MEASURES TAKEN IN THE EC MEMBER STATES.

(F) HMG CONSIDERS THAT THERE IS A NEED TO REVERSE THE GROWING TENDENCY TOWARDS DIVERGENCE IN THE ECONOMIC PERFORMANCE OF THE STRONGER AND WEAKER COUNTRIES OF THE EC AND THAT THERE IS ALSO A NEED TO ENCOURAGE A HIGHER LEVEL OF INVESTMENT IN THE ECONOMIES OF THOSE MEMBER STATES WHOSE PERFORMANCE IS LAGGING BEHIND. END SUMMARY OF U.K. PAPER.

2. U.K. PRIME MINISTER CALLAGHAN (THE COUNCIL

PRESIDENT) ANNOUNCED AT HIS PRESS COFERENCE THAT THE HEADS OF GOVERNMENT HAD TAKEN NOTE OF THE EC POSITIONS FOR THE APRIL MEETING OF THE IMF INTERIM COMMITTEE, WHICH HAVE BEEN AGREED BY THE FINANCE MINISTERS. HE SUMMARIZED THESE AS FOLLOWS. SERIOUS PAYMENTS IMBALANCES BETWEEN COUNTRIES ARE LIKELY TO PERSIST AND THERE IS A NEED FOR AN EXPANSION IN THE SCALE OF OFFICIAL SUPPORT TO TAKE SOME OF THE BURDEN OF FINANCING DEFICITS OFF THE BACKS OF THE COMMERCIAL BANKS. THE FINANCE MINISTERS HAVE CONCLUDED THAT ACTION MIGHT INCLUDE A REASONABLY SUBSTANTIAL INCREASE IN IMF QUOTAS AND PROVISION FOR THE IMF, IN APPROPRIATE CASES, TO LEND IN EXCESS OF THE ORDINARY CREDIT TRANCHES. CALLAGHAN SAID HE THOUGHT THIS A VERY SATISFACTORY APPROACH.

3. THE ONLY OTHER NATIONAL POSITION ON THE ECONOMIC AND MONETARY SITUATION DISCUSSIONS TO SURFACE IN PRESS LIMITED OFFICIAL USE

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CONFERENCES WAS ITALY'S. ACCORDING TO GOI SPOKESMAN (LA ROCCA), PREMIER ANDREOTTI EXPRESSED SATISFACTION WITH DISCARD'S STATEMENT, MADE AT THE END OF SCHMIDT'S RECENT VISIT TO PARIS, CALLING FOR NEW EFFORTS TOWARDS EC ECONOMIC AND MONETARY UNION. ANDREOTTI POINTED OUT THAT THERE WAS NO WAY TO OVERCOME THE GRAVE WORLD ECONOMIC CRISIS WITHOUT SACRIFICES AND SAID THAT ITALY HAS TAKEN THAT COURSE. HE SPOKE OF THE NEED TO COORDINATE COMMON INVESTMENTS WITHIN THE EC, GIVING MORE FREEDOM OF ACTION TO THE REGIONAL SOCIAL FUNDS AND CALLED FOR REFORM OF THE COMMON AGRICULTURAL POLICY, WHICH HE TERMED TOO COSTLY AND WASTEFUL. ANDREOTTI SAID ITALY WANTED AN ENERGY POLICY WHICH WOULD SAFEGUARD BOTH ENERGY NEEDS AND THE ENVIRONMENT AND CONCLUDED WITH A CALL FOR A PROGRAM TO COMBAT UNEMPLOYMENT, PARTICULARLY AMONG YOUTH.

4. EC COMMISSION SPOKESMAN RENATO RUGGIERO TOLD REPORTERS THAT JENKINS' REPORT TO THE HEADS OF GOVERNMENT HAD STRESSED THAT ECONOMIC RECOVERY, FAR FROM BEING ASSURED, STILL FACES GRAVE DIFFICULTIES, ALTHOUGH UNEMPLOYMENT LEVELS SHOW SOME SIGNS OF IMPROVEMENT. ACCORDING TO RUGGIERO, JENKINS SAID THAT THE DEFICIT COUNTRIES SHOULD CONTINUE WITH THEIR STABILIZATION PLANS AND THAT

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SURPLUS COUNTIES SHOULD CONTINUE WITH THEIR CURRENT POLICIES, THOUGH WITHOUT SPARKING INFLATION. JENKINS CALLED FOR BETTER COORDINATION OF ECONOMIC POLICIES AND IMPROVEMENT OF THE EC'S FINANCING FACILITIES, STRESSING THAT THE EC SHOULD MAKE BETTER USE OF ITS BORROWING CAPACITIES, AN AREA WHEREIT HAS GOOD EXPERIENCE. HE SAID THAT THIS ADDITIONAL FINANCIAL CAPACITY SHOULD NOT BE USED ONLY TO COVER BALANCE OF PAYMENTS DEFICITS, BUT ALSO TO ASSIST FURTHER CONVERGENCE OF THE EC ECONOMIES. HE SUGGESTED, IN THIS RESPECT, THAT APPROPRIATE TARGETS MIGHT INCLUDE INFRASTRUCTURE PROJECTS, IMPROVED EMPLOYMENT PROSPECTS, AND MODERNIZATION OF INDUSTRY.

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5. AT HIS JOINT PRESS CONFERENCE WITH CALLAGHAN, AFTER THE MEETING, JENKINS ANNOUNCED THAT, ON THE BASIS OF THE EUROPEAN COUNCIL'S DISCUSSIONS, THE COMMISSION WILL BE DEVELOPING ITS IDEAS FOR THE INCREASED USE OF EC FINANCIAL INSTRUMENTS, IN PARTICULAR THE GREATER USE OF BORROWING AND LOAN FACILITIES, IN ORDER TO DEAL

WITH INVESTMENT AND SECTORAL PROBLEMS WITHIN THE COMMUNITY.

JENKINS WAS ASKED BY REPORTERS WHETHER HE FELT THE REGIONAL AND SOCIAL FUNDS WERE ADEQUATE TO THE NEEDS THE EC NOW FACES. HE RESPONDED THAT THE COMMISSION HAS ALREADY COMPLETED ITS STUDY OF THE SOCIAL FUND AND WILL SUBMIT, BY THE END OF APRIL, PROPOSALS FOR RENEWAL OF THE REGIONAL FUND. HE SAID THE COMMISSION HOPES THESE FUNDS MAY BE EXPANDED SOMEWHAT BUT THAT IT WOULD BE A MISTAKE TO THINK IT LIKELY THAT THE FUNDS WILL BE EXPANDED TO SUCH AN EXTENT THAT THEY WILL BE ABLE TO TAKE CARE OF THE TASKS THE COMMISSION ENVISAGES. HE SAID THAT WHAT HE HAS IN MIND IS NOT MERELY THE USE OF THESE FUNDS BUT ALSO THE DEVELOPMENT OF THE EC'S BORROWING POWERS IN ORDER TO ENABLE IT TO INTERVENE, NOT ONLY AS AT PRESENT, IN BALANCE OF PAYMENTS FINANCING TRANSACTIONS AND ECSC LOANS, BUT ALSO IN INDUSTRIAL SECTORS GOING BEYOND THESE. HE SAID THIS WAS ESPECIALLY NECESSARY IN THE RESTRUCTURING OF THE STEEL INDUSTRY (SEE REFTEL FOR EUROPEAN COUNCIL DISCUSSIONS ON STEEL) IN TERMS OF PROVIDING ALTERNATIVE EMPLOYMENT MEASURES IN AFFECTED AREAS.

6. UNEMPLOYMENT. AT HIS PRESS CONFERENCE, CALLAGHAN POINTED OUT THAT THE EUROPEAN COUNCIL'S DECLARATION ON THE ECONOMIC AND MONETARY SITUATION PLACES PARTICULAR EMPHASIS UPON THE PROBLEMS OF UNEMPLOYMENT AMONG YOUNG PEOPLE AND WOMEN. HE SAID THAT HE HAD MET MARCH 25 WITH THE CHAIRMAN AND VICE CHAIRMAN OF THE EUROPEAN TRADE UNION CONFEDERATION (HEINZ VETTER AND LEN MURRAY) AND THAT HE HAD BEEN ASKED TO CONVEY TO LIMITED OFFICIAL USE

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THE EUROPEAN COUNCIL THEIR "VERY STRONG VIEWS" THAT THE EC SHOULD MOVE, AS QUICKLY AS POSSIBLE, TO COUNTER UNEMPLOYMENT. HE INDICATED THAT THE HEADS OF GOVERNMENT SUBSEQUENTLY DECIDED THAT ANOTHER TRIPARTITE CONFERENCE (LABOR, INDUSTRY, AND EC REPRESENTATIVES) SHOULD BE HELD THIS SUMMER. IN AN EARLIER PRESS CONFERENCE, VETTER AND MURRAY CONVEYED TO REPORTERS THEIR VIEW THAT THE LAST TRIPARTITE CONFERENCE (HELD IN JUNE 1976) HAD NOT BEEN FOLLOWED UP SUFFICIENTLY. THEY STRESSED THAT GROWTH IS THE KEY TO ECONOMIC RECOVERY AND THAT THE TRADE UNIONS WANTED CLOSER RELATIONS WITH THE EC GOVERNMENTS IN WORKING TOWARDS THAT END.GARDNER

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